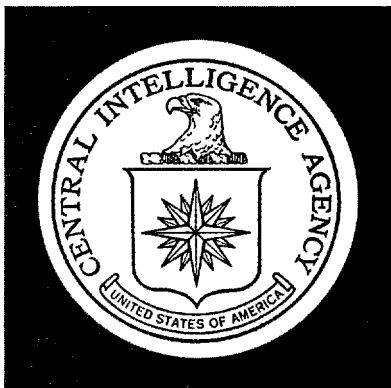


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Nationalist China: There appears to be growing sentiment at the top level of the government for a reduction of its oversized armed forces.

Chief of General Staff Kao K'uei-vuan has stated, [redacted] that both he and Defense Minister Chiang Ching-kuo recognize the need for a reduction in the 600,000-man military establishment. President Chiang Kai-shek is the principal obstacle to such a move. Kao claimed that the major task was to convince the President that a troop reduction would not hurt planning for a "counterattack" against the mainland.

The chief of staff has suggested a reduction of 50,000 men. He also favors raising military salaries in order to overcome rising living costs and boost morale. He has proposed that the Ministry of National Defense absorb half the cost of the salary raise, and indicated that the administration appears willing to pay the remaining costs from other funds.

There is no evidence to indicate that Chiang Kai-shek has been approached on this plan. The Generalissimo is perennially concerned that any reduction in troop strength would be interpreted as evidence that the goal of recovering the mainland had been downgraded. The defense minister, who is the President's son and heir apparent, has indicated to US officials on several recent occasions, however, that a force reduction might be possible if at the same time the US would support a program of equipment modernization. [redacted]

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